

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

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MEMORANDUM

TO: Watertown Retirement Board

FROM: Joseph E. Connarton, Executive Director

RE: Approval of Funding Schedule

DATE: November 23, 2015

This Commission is hereby furnishing you with approval of the revised funding schedule you recently adopted (copy enclosed). The schedule assumes payments are made on July 1 each fiscal year. The schedule is effective in FY16 (since the amount under the prior schedule was maintained in FY16) and is acceptable under Chapter 32.

The system has a very aggressive funding schedule for the next four years (Town due to be fully funded in FY19 and Housing Authority in FY22). However, we recommend the Board consider several changes in actuarial assumptions in the next valuation. First, this valuation uses an 8.0% investment return assumption. For comparison, there are now 77 systems using an assumption under 8.0% and, of these, 22 are using an assumption under 7.75%. We have generally recommended an assumption of 7.50% - 7.60% in 2015 PERAC local system valuations. Based on the current environment, we recommend the Board consider reducing this assumption for the 2017 valuation.

Second, the valuation uses a salary increase assumption of 3.5% which is one of the lowest used by any system. We expect that over the long term this assumption will need to be increased (and/or the investment return assumption decreased) which will increase plan liabilities.

Third, we recommend boards adopt a fully generational mortality assumption. A fully generational assumption includes all expected future mortality improvement (longer life expectancy). Currently 47 systems have adopted such an assumption and we expect more than 70 will have adopted this type of assumption after all 2016 valuations are completed.

If you have any questions, please contact PERAC's Actuary, Jim Lamenzo, at (617) 666-4446, extension 921.

Enc.



Appropriation Forecast

Fiscal		Employer	Amortization	Employer	Employer		
Year		Employee	Normal Cost	Payments	Total Cost	Total Cost	Funded
<u>Ending</u>	<u>Payroll*</u>	<u>Contribution</u>	<u>with Interest</u>	<u>with Interest</u>	<u>with Interest</u>	<u>% of Payroll</u>	<u>Ratio %**</u>
2016	\$30,326,548	\$2,664,344	\$1,570,541	\$12,202,955	\$13,773,496	45.4	73.5
2017	\$31,539,610	\$2,797,955	\$1,605,265	\$13,743,231	\$15,348,496	48.7	79.2
2018	\$32,801,194	\$2,937,992	\$1,640,254	\$15,283,242	\$16,923,496	51.6	85.8
2019	\$34,113,242	\$3,084,755	\$1,675,474	\$12,847,759	\$14,523,233	42.6	93.3
2020	\$35,477,772	\$3,238,558	\$1,710,887	\$263,470	\$1,974,357	5.6	99.6
2021	\$36,896,883	\$3,399,730	\$1,746,452	\$275,326	\$2,021,778	5.5	99.7
2022	\$38,372,758	\$3,568,613	\$1,782,124	\$287,716	\$2,069,840	5.4	99.9
2023	\$39,907,668	\$3,745,569	\$1,817,857	\$0	\$1,817,857	4.6	100.0
2024	\$41,503,975	\$3,930,970	\$1,853,596	\$0	\$1,853,596	4.5	100.0
2025	\$43,164,134	\$4,125,211	\$1,889,287	\$0	\$1,889,287	4.4	100.0
2026	\$44,890,699	\$4,328,702	\$1,924,866	\$0	\$1,924,866	4.3	100.0
2027	\$46,686,327	\$4,541,871	\$1,960,269	\$0	\$1,960,269	4.2	100.0
2028	\$48,553,780	\$4,765,168	\$1,995,425	\$0	\$1,995,425	4.1	100.0
2029	\$50,495,932	\$4,999,062	\$2,030,257	\$0	\$2,030,257	4.0	100.0
2030	\$52,515,769	\$5,244,044	\$2,064,682	\$0	\$2,064,682	3.9	100.0
2031	\$54,616,400	\$5,500,625	\$2,098,613	\$0	\$2,098,613	3.8	100.0
2032	\$56,801,056	\$5,769,342	\$2,131,955	\$0	\$2,131,955	3.8	100.0
2033	\$59,073,098	\$6,050,756	\$2,164,607	\$0	\$2,164,607	3.7	100.0
2034	\$61,436,022	\$6,345,451	\$2,196,459	\$0	\$2,196,459	3.6	100.0
2035	\$63,893,463	\$6,654,041	\$2,227,397	\$0	\$2,227,397	3.5	100.0
2036	\$66,449,201	\$6,977,166	\$2,257,295	\$0	\$2,257,295	3.4	100.0
2037	\$69,107,169	\$7,256,253	\$2,347,587	\$0	\$2,347,587	3.4	100.0
2038	\$71,871,456	\$7,546,503	\$2,441,490	\$0	\$2,441,490	3.4	100.0
2039	\$74,746,314	\$7,848,363	\$2,539,150	\$0	\$2,539,150	3.4	100.0
2040	\$77,736,167	\$8,162,298	\$2,640,716	\$0	\$2,640,716	3.4	100.0
2041	\$80,845,613	\$8,488,789	\$2,746,345	\$0	\$2,746,345	3.4	100.0
2042	\$84,079,438	\$8,828,341	\$2,856,199	\$0	\$2,856,199	3.4	100.0
2043	\$87,442,616	\$9,181,475	\$2,970,446	\$0	\$2,970,446	3.4	100.0
2044	\$90,940,320	\$9,548,734	\$3,089,264	\$0	\$3,089,264	3.4	100.0
2045	\$94,577,933	\$9,930,683	\$3,212,835	\$0	\$3,212,835	3.4	100.0
2046	\$98,361,050	\$10,327,910	\$3,341,348	\$0	\$3,341,348	3.4	100.0
2047	\$102,295,492	\$10,741,027	\$3,475,002	\$0	\$3,475,002	3.4	100.0

* Calendar basis

** Beginning of Fiscal Year